

COMMENT

PICC Property and Casualty (2328.HK) HK\$13.90

Equity Research

PICC P&C to acquire a 24.7% stake in PICC Health

News

PICC P&C announced on Jun 23 that it has entered into an agreement to acquire a 24.73% stake in PICC Health through a share placement. PICC Health plans to issue 2,119 million new shares to PICC P&C for a consideration of RMB2.5bn. As a result of the share placement, existing shareholders would be diluted, with PICC Group's holding set to reduce from 92.1% to 69.32% after the placement. The share placement has been approved by the board of PICC P&C, and is now pending approval from the CIRC and relevant government authorities.

Analysis

The proposed Rmb2.5bn investment has limited financial impact on PICC P&C as it only represents 0.7% of PICC P&C's investment assets and 2% of book value as of Dec 2015. The transaction price implies 2.1x 2016E P/EV (reporting basis) or 3.5x 2016E P/B, vs. Chinese H-share insurers trading at 0.7x 2016E P/EV and 1.2x 2016E P/B on average. PICC Health has a 9% ROEV (unadjusted) and negative operating profit, vs. Chinese insurers at 16% ROEV and 12% ROE in 2016. In our SOTP valuation for PICC Group, we have assigned 0.6x adjusted P/EV (0.5x unadjusted P/EV) for PICC Health.

Operationally, we see some synergy between PICC P&C and PICC Health as they both provide short-term accident and health products, especially in the government-led program, but we see the proposed transaction benefiting PICC Health more than PICC P&C. PICC P&C's increased stake in PICC Health might gradually help streamline and consolidate the Group's health line.

The RMB2.5bn capital injected will likely be used to replenish PICC Health's capital and fund its growth, in our view. We calculate an approximate 100pp boost to PICC Health's core/comprehensive solvency ratio, which was 139%/166% at 1Q16.

Implications

Our CL-Buy, 12-month 3-stage DDM-derived target price of HK\$19.3 and estimates for PICC P&C remain unchanged. Downside risks: macro hard landing, radical price deregulation, increased peer competition.

INVESTMENT LIST MEMBERSHIP

Asia Pacific Buy List
Asia Pacific Conviction Buy List

Coverage View: Neutral

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Reg AC

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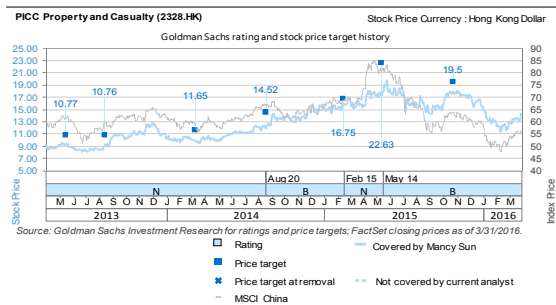
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